

TRAINING MODULE 14

STUDY PLAN

Loan Guaranty

Objective:

To learn how an eligible veteran or other eligible person may obtain or guarantee a loan to buy, build, or improve a home under VA's Loan Guaranty program.

References:

Title 38, U.S. Code, Chapter 37.

38 Code of Federal Regulations, Part 36.

Guaranteed Loan Processing Manual M26-1

VA Pamphlets:

26-4, *VA-Guaranteed Home Loans for Veterans*

26-5, *Pointers for the Veteran-Homeowner*

26-6, *To the Home-Buying Veteran: A Guide for Veterans Planning to Buy or Build Homes with a VA Loan*

26-69-1, *Questions and Answers on Specially Adapted Housing and Special Housing Adaptations for Veterans*

26-71-1, *Questions and Answers on Manufactured Home Loans for Veterans*

26-91-1, *VA Home Loans: A Quick Guide for Homebuyers & Real Estate Professionals*

26-93-1, *VA Direct Home Loans for Native American Veterans Living on Trust Lands*

80-06-01, *Federal Benefits for Veterans and Dependents.*

Instructions:

Study the assigned reference materials to learn how to assist veterans or other eligible persons file for benefits under the Loan Guaranty program.

Summary:

THE DEPARTMENT OF VETERANS AFFAIRS (VA) WILL GUARANTEE LOANS TO BE USED for the following purposes:

- To buy a home (including a townhouse or a condominium unit in a VA-approved project);
- To build a new home;
- To repair, alter, or improve an existing home;
- To refinance an existing loan (including an existing VA loan to reduce the interest rate);
- To buy a manufactured (mobile) home and/or lot;
- To buy and improve a lot on which to place an already-owned and -occupied mobile home;
- To refinance a mobile home loan in order to acquire a lot.

Loan Guaranty

The veteran or eligible person must actually live on the property for which the VA-guaranteed loan is made. VA-guaranteed loans are not available to buy a farm (unless the farm includes a farm house which will be personally occupied by the veteran or eligible person as their home), or to buy a business. Financing for these may be obtained through the Farmers Home Administration and the Small Business Administration, respectively, both of which give preference to veterans. Also, VA-guaranteed loans are not available outside U.S. territorial limits.

Except as noted below, VA does not actually make the loan; rather, VA guarantees a percentage of the loan value, thereby reducing the risk to the lender. The actual amount of the guarantee will vary depending on the total amount of the loan, the value of the property involved, and whether the veteran or eligible person has previously used any of his or her loan guaranty entitlement. The amount of the loan may not exceed the reasonable value of the property; the maximum amount of the guarantee will be 25% of the Freddie Mac (Federal Home Loan Mortgage Corporation) conforming loan limit limitation for a single-family residence, as adjusted (for the year involved). If both spouses are veterans and each has loan guaranty entitlement available, their separate entitlements may be combined to obtain a greater guaranty amount.

Under certain circumstances VA will make direct loans to eligible Native American veterans to buy, build, or improve a home on Native American trust (tribal) lands. The maximum loan in this case is \$80,000 or the actual cost of the home, whichever is less. VA may also make direct loans to eligible disabled veterans who qualify for the Special Adapted Housing grant, to help cover the difference between the amount of the grant and the cost of the housing unit. In this case, the maximum loan is \$33,000. In addition, VA may also make direct loans to veterans who live in rural areas or small towns far from large metropolitan areas, upon a showing that there are no available local lenders except at exorbitant interest rates and the veteran is unable to obtain financing from any other sources. Again, the maximum loan is \$33,000.

The veteran or eligible person must meet all of the credit-worthiness and the other usual and customary requirements of the lending institution, as well as making the down payment (if any) and paying the normal and reasonable closing costs. There is also a funding fee, which may be either paid separately or included in the loan; this fee may vary, according to the amount of down payment made. If the veteran is in receipt of service-connected disability compensation or would be entitled to compensation but for receipt of military retired pay, the funding fee is waived. Interest rates are negotiable.

The length of the mortgage and repayment plan depend on the specifics of the loan, including the amount and purpose and the particular lender. The maximum allowable length of the loan term is 30 years and 32 days. The repayment plan may be a fixed-payment, a graduated payment, a "buy-down," or a growing equity mortgage plan.

If the loan is to build a new home, VA will require the builder to offer a warranty against construction defects; however, VA has no enforcement authority in such cases except to suspend the builder from future participation in the Loan Guaranty program.

For qualifying service, veterans who served during World War II, the Korean Conflict, or the Vietnam era must have served at least 90 days of continuous active duty and have been discharged under honorable conditions. Veterans whose service was entirely during peacetime periods [from July 26, 1947 to June 26, 1950; from February 1, 1955 to August 4, 1964; or from

Loan Guaranty

May 8, 1975 to September 7, 1980 (enlisted) or October 16, 1981 (officers)] must have served at least 181 days of continuous active duty and have been discharged under honorable conditions. In each of these cases, if the veteran served less than the specified minimum time but was discharged for service-connected disability, the veteran may still be eligible for VA Loan Guaranty benefits.

Veterans whose service began after September 7, 1980 (enlisted) or after October 16, 1981 (officers) and ended before August 1, 1990 must have completed 24 months of continuous active duty or the full period (at least 181 days) for which they were called or ordered to active duty, and have been discharged under honorable conditions. Eligibility may still exist if the veteran served less than the specified length of time, but was discharged because of a service-connected disability; or served at least 20 months and was discharged for the convenience of the Government; or served at least 181 days and was discharged because of hardship or reduction in force; or has been determined to have a service-connected disability of compensable severity.

Veterans who served during the Persian Gulf Conflict (beginning August 2, 1990), have the same 24-month length of service requirement as above; however, the exceptions only require 90 days of active duty instead of 181 days. Current active duty service members require 90 days of continuous active service for eligibility.

Certain members of the Selected Reserve and National Guard who are not otherwise eligible for Loan Guaranty benefits, who have served at least 6 years in the Reserves or National Guard and who continue to serve in the Selected Reserve, or who have been discharged under honorable conditions, or who have been discharged because of a service-connected disability, or who have been placed on the retired list, or who have been transferred to an element of the Ready Reserves other than the Selected Reserve, are eligible for VA Loan Guaranty benefits. Previous eligibility delimiting dates for Selected Reserve and National Guard members have been repealed.

Other persons eligible for VA Loan Guaranty benefits include the unremarried surviving spouse of a veteran who died on active duty or who died of service-related causes; the spouse of any active duty service member who has been listed as missing in action or as a prisoner of war for more than 90 days; certain U.S. citizens who served in the armed forces of an Allied government during World War II; and persons who served as members of certain other organizations, services, programs, or schools. An eligible surviving spouse who has remarried but whose remarriage has been terminated by death, divorce, or annulment regains eligibility for VA Loan Guaranty benefits. Beginning January 1, 2004, if the surviving spouse is over age 57 at the time of remarriage, Loan Guaranty eligibility is not terminated. Veterans of World War I and members of the Reserves or National Guard whose only active duty was Active Duty for Training are not eligible for VA Loan Guaranty benefits. However, they may qualify for a veteran's loan under the National Housing Act loan program (FHA/HUD).

Upon application, VA will make a determination of eligibility and entitlement and issue a Certificate of Eligibility, which the veteran or eligible person should present to the lending institution when applying for the loan (however, the loan application may be made before applying to VA). A completed VA Form 26-1880, *Request for Determination of Eligibility and Available Loan Guaranty Entitlement*, should be sent together with appropriate proof of qualifying service and

Loan Guaranty

relationship (if applicable) to the VA Eligibility Center (**NOT** to the VA Regional Office) at the address below:

VA Loan Eligibility Center
P.O. Box 20729
Winston-Salem, North Carolina 27120

(See the sample applications on pages 14-6 and 14-7.)

Beginning January 1, 2006, the Eligibility Center previously located in Los Angeles, California, has closed, and all applications for a Certificate of Eligibility must now be sent to the Winston-Salem Center. Note that the Eligibility Center handles only issues pertaining to Loan Guaranty **eligibility and entitlement**—questions regarding other Loan Guaranty matters should be directed to the VA Regional Loan Center having jurisdiction of the loan. For California residents this is: VA Regional Loan Center, 3225 North Central Avenue, Phoenix, Arizona 85012.

There are no time limits for using Loan Guaranty entitlement. Beginning December 16, 2003, the previous delimiting date time limits for Reservists and National Guard members who qualify for Loan Guaranty benefits based on service in the Selected Reserves and/or National Guard are repealed.

Once Loan Guaranty entitlement has been used it generally cannot be restored, except under the following circumstances:

1. If the entitlement limits have been increased since the previous loan was approved, the difference between the old limits and the new limits may be available for a new VA loan, even if the previous loan is not fully paid off; or
2. If the property has been sold and the previous loan has been paid in full; or
3. A qualified eligible person buys the property, agrees to assume the outstanding VA loan balance, agrees to substitute the same amount of his or her entitlement for the entitlement originally used to guarantee the loan, **and** the new buyer meets all of the occupancy, income and credit requirements; or
4. **One time only**—If the prior VA loan has been paid in full but the property securing that loan has not been sold or otherwise disposed of, the entitlement used in connection with that loan may be restored.

In each of these cases application for restoration of entitlement must be made by completing and submitting VA Form 26-1880, *Request for Determination of Eligibility and Available Loan Guaranty Entitlement*, to the appropriate VA Eligibility Center.

A veteran or eligible person may at any time sell the property on which a VA loan has been made. However, if the new buyer will be assuming the existing VA loan there are differing requirements, depending on whether the original loan closed before or after March 1, 1988. If the original loan closed before March 1, 1988, the loan may be assumed without the approval of either VA or the lender; however, the veteran or eligible person who obtained the original loan will remain liable should the current or any future assumer ever go into default. This can be avoided by obtaining a release of liability from the VA Regional Loan Center.

Loan Guaranty

If the original loan closed on or after March 1, 1988, the loan cannot be assumed by another party unless VA or the lender (or both) are notified, approve the assumer, and release the veteran or eligible person from further liability. The application forms for this may be obtained from the lender to whom the payments are being made, or from the VA Regional Loan Center.


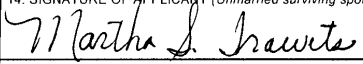
OMB Approved No. 2900-0086
Respondent Burden: 15 minutes

[illegible]

Loan Guaranty

SAMPLE COPY

OMB Approved No. 2900-0055
Respondent Burden: 15 minutes

 Department of Veterans Affairs		REQUEST FOR DETERMINATION OF LOAN GUARANTY ELIGIBILITY - UNMARRIED SURVIVING SPOUSES	
<p>PRIVACY ACT INFORMATION: No Certificate of Eligibility may be issued unless a completed application form has been received (38 U.S.C. 3702). You are not required to furnish the information, but are urged to do so since it is vital for proper action by VA in your case. Responses may be disclosed outside VA only if the disclosure is authorized under the Privacy Act, including the routine uses identified in the VA system of records. 55VA26. Loan Guaranty Home, Condominium and Manufactured Home Loan Applicant Records, Specially Adapted Housing Applicant Records, and Vender Loan Applicant Records 0 VA, published in the Federal Register.</p> <p>RESPONDENT BURDEN: VA may not conduct or sponsor, and respondent is not required to respond to this collection of information unless it displays a valid OMB Control Number. Public reporting burden for this collection of information is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. If you have comments regarding this burden estimate or any other aspect of this collection of information, call 1-800-827-1000 for mailing information on where to send your comments.</p>			
<p>IMPORTANT: Do not complete this form if you are requesting restoration of previously used entitlement. Instead, complete VA Form 26-1880, Request for a Certificate of Eligibility for VA Home Loan Benefits.</p>		<p>TO Department of Veterans Affairs Attn: Loan Guaranty Officer</p>	
PART I - (To be completed in triplicate by the applicant)			
1A. NAME AND ADDRESS OF APPLICANT (Unmarried surviving spouse)		4. FIRST, MIDDLE, LAST NAME OF VETERAN	
MARTHA S. TRAWETS		ANTHONY L. TRAWETS	
1B. APPLICANT'S DAYTIME TELEPHONE NO. (Including Area Code)		5. VA FILE NO.	6. LOCATION OF VA CLAIMS FILE (if known)
(209) 555-1212		XC- 07 555 999-00	UNK
2. APPLICANT'S BIRTH DATE		7. VETERAN'S SERVICE NO.	8. VETERAN'S BRANCH OF SERVICE
10/02/1947		237-98-7777	US NAVY
3. PERIODS OF SERVICE		9. DATE OF VETERAN'S DEATH	
N/A		12/03/2004	
NOTE: If you have had active military duty complete Items 3A, 3B and 3C below.			
3A. BRANCH OF SERVICE	3B. SERVICE NUMBER	10. PERIODS OF DECEASED VETERAN'S MILITARY DUTY	
N/A	N/A	A. FROM	B. TO
3C. PERIODS OF SERVICE		N/A	N/A
11A. HAVE YOU PREVIOUSLY APPLIED FOR DETERMINATION OF YOUR ELIGIBILITY FOR LOAN GUARANTY BENEFITS?		LOCATION OF VA OFFICE	
<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO If "Yes," Complete Item 11B)		11B.	
12A. HAVE YOU PREVIOUSLY RECEIVED A CERTIFICATE OF ELIGIBILITY FOR SUCH BENEFITS?		12B.	
<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO If "Yes," Complete Item 12B)			
13A. HAVE YOU PREVIOUSLY SECURED A VA DIRECT, GUARANTEED OR INSURED LOAN?		13B.	
<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO If "Yes," Complete Item 13B)			
CERTIFICATION: I CERTIFY THAT the above information is true and accurate to the best of my knowledge and belief.			
14. SIGNATURE OF APPLICANT (Unmarried surviving spouse)			15. DATE
			01-07-05
Federal statutes provide severe penalties for fraud, intentional misrepresentation or criminal connivance or conspiracy to influence the issuance of my guaranty or insurance or the granting of any loan by the Department of Veterans Affairs.			
PART II- FOR VA USE ONLY			
SECTION A			
TO (Complete address)	Adjudication Officer Department of Veteran Affairs Regional Office/Center	RETURN TO (After completion of Section B)	Loan Guaranty Officer Department of Veterans Affairs Regional Office/Center
The foregoing request for determination of eligibility is forwarded to you for appropriate action and completion of Section B.		16. SIGNATURE OF LOAN GUARANTY OFFICER OR DESIGNEE	17. DATE
SECTION B			
18A. CHECK APPROPRIATE BOX(ES)		18B. REASON APPLICANT NOT ELIGIBLE	
<input type="checkbox"/> THE ABOVE NAMED DECEASED VETERAN SERVED ON ACTIVE DUTY AS DEFINED IN 38 U.S.C. 3702 101 (21) AND SERVED DURING A PERIOD OF SERVICE SPECIFIED IN 38 U.S.C. 3702 AND IT HAS BEEN DETERMINED THAT DEATH WAS FROM A SERVICE-CONNECTED DISABILITY. THE ABOVE NAMED APPLICANT IS RECOGNIZED AS THE UNMARRIED SURVIVING SPOUSE <input type="checkbox"/> APPLICANT IS NOT ELIGIBLE (If checked, complete Item 18B)			
19. SIGNATURE		20. TITLE	21. DATE

VA FORM 26-1817
FEB 2000

SUPERSEDES VA FORM 26-1817, JUN 1994,
WHICH WILL NOT BE USED.

Loan Guaranty

— Notes —

Loan Guaranty

— Notes —

Loan Guaranty

— Notes —

Loan Guaranty

Study Questions:

Using the assigned references and reading materials, answer the following questions:

1. The veteran was a Reservist whose unit was activated during the Gulf War. The veteran was on active duty from November 15, 1990 to April 30, 1991, at which time the Reserve unit returned to its previous status. Is the veteran eligible for Loan Guaranty benefits?
(Y/N)
2. Which may a VA-guaranteed loan *not* be used for?
 - a. To buy and/or improve an existing home to live in.
 - b. To buy a lot on which to place an already-owned mobile home.
 - c. To build an apartment building to use solely as income property.
 - d. To buy a farm including the farmhouse to live in.
3. The veteran was rated 100% since 1952 because of service-connected anatomical loss of both feet. He died when a truck struck the car in which he was a passenger. Is the surviving spouse eligible for VA Loan Guaranty benefits?
(Y/N)
4. The veteran obtained a VA-guaranteed loan in 1980 to buy a home. Last year he sold the home to another person (not a veteran). Rather than refinance the loan, the new owner simply assumed the existing mortgage. After six months the new owner stopped making payments, and the loan has gone into default. Is the veteran still liable for the loan?
(Y/N)
5. The cost of a VA-guaranteed loan includes funding fees, which may be proportionately reduced if the veteran has any service-connected disabilities, depending on the degree of disability.
(T/F)

Loan Guaranty

- 6.** What is the time limit for using VA Loan Guaranty benefits?
 - a.** Ten (10) years after separation from service.
 - b.** September 30, 2009 for members or former members of the Selected Reserve.
 - c.** There are no time limits for using this benefit.
 - d.** Both a. and b., above.
- 7.** If a husband and wife are both veterans, can they combine their separate Loan Guaranty entitlements?
(Y/N)
- 8.** VA will make a direct loan to eligible veterans under the following circumstances:
 - a.** If there are no lenders available in the veteran's local area.
 - b.** To a Native American veteran to buy or build a home on tribal lands.
 - c.** If the veteran or eligible person does not meet the lender's normal requirements for a loan.
 - d.** If several veterans go together to purchase a property.
 - e.** Either a. or b., above.
 - f.** Either b. or c., above.
- 9.** Will VA guarantee a loan to purchase a home in a foreign country?
(Y/N)
- 10.** Even though a veteran has previously used the full amount of Loan Guaranty entitlement, under certain circumstances that entitlement may be restored.
(T/F)